

**INDEPENDENCE LIGHT AND POWER,
TELECOMMUNICATIONS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

DECEMBER 31, 2006

Table Of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-16
Basic Financial Statements:	
Statement of Net Assets	18-19
Statement of Revenues and Expenses and Changes in Net Assets	20
Statement of Cash Flows	21
Notes to Financial Statements	22-30
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets – Budget And Actual (Cash Basis)	32
Note to Required Supplementary Information – Budgetary Reporting	33
Other Supplementary Information:	<u>Schedule</u>
Treasurer's Balance Composition	1 35
Schedule of Operating Expenses	2 36-37
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	38-39
Schedule of Findings	40-42
Staff	43

INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS

Officials

Board of Trustees

William J. Hickey
Robert M. Cook
Brian Meyer
Bryan Palmer
Stephen Elliott

Chairperson
Secretary-Treasurer
Trustee
Trustee
Trustee

Utility Officials

Darrel Wenzel
Ronald Curry
Kevin Sidles
Judy Latwesen
William Runge

General Manager
Assistant General Manager
Line Superintendent
Office Manager
Telecommunications-Superintendent

City Council

Frank Brimmer
Paul Paisley
Mike Hayward
Julie Wulfekuhle
Greg Bressler
Cheryl Hand
Dolores Shannon
Richard Engen

Mayor
Council Member
Council Member
Council Member
Council Member
Council Member
Council Member
Council Member

City Officials

Debra Lynn
Sarah Dooley-Rothman

City Clerk
City Attorney

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.

14 East Charles St. PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

Independent Auditor's Report

To the Board of Trustees
Independence Light and Power, Telecommunications
Independence, Iowa 50644

We have audited the accompanying financial statements of Independence Light and Power, Telecommunications (a municipal utility), a component unit of the City of Independence, Iowa, as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the management of Independence Light and Power, Telecommunications. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, each major fund and the aggregate remaining fund information of the Independence Light and Power, Telecommunications as of December 31, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2007 on our consideration of the Independence Light and Power, Telecommunications' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 16 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming opinions on the financial statements that collectively comprise the Independence Light and Power, Telecommunications' basic financial statements. Other supplementary information included in Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.
RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

March 22, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Independence Light and Power, Telecommunications (the Utility) provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2006. The Independence Light and Power, Telecommunications provides electrical, cable, internet, and telephone services to the citizens of the City of Independence (the City) and is a component unit of the City. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the Utility for 2006 were \$7,229,087. This is an increase of approximately 1% from 2005.
- Disbursements for 2006 totaled \$7,384,466. This is an increase of approximately 17% from 2005.
- During 2006, the Utility incurred capital costs associated with the addition of telephone service or Voice Over Internet Protocol (VOIP) to its customers. This is considered a major project and will be ongoing.
- The Utility purchases power from Wisconsin Public Power Inc. (WPPI). The contract to purchase power was signed in April 2006 and commenced on May 1, 2006. The contract expires on December 31, 2037.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis – This introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.
- The Basic Financial Statements – These consist of the Statement of Net Assets, Statement of Revenues and Expenses and Changes in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements. The previous mentioned financial statements provide information about the activities of the Utility as a whole and present an overall view of the Utility's finances. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Supplemental Information – This provides additional information about the Utility's financial activities in addition to the basic financial statements.

BASIS OF ACCOUNTING

The Utility maintains its financial records on the accrual basis of accounting which is in conformity with U.S. generally accepted accounting principals. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

FINANCIAL ANALYSIS OF THE UTILITY

Net Assets may serve over time as a useful indicator of financial position. The Utility's Net Assets decreased by \$129,242 from 2005 to 2006.

Assets, Liabilities, and Net Assets

Assets	
Current Assets	\$ 2,196,139
Capital Assets:	
Capital Assets	24,153,982
Less: Accumulated depreciation	(10,798,756)
Total Capital Assets	13,355,226
Board Designated Funds	3,083,845
Other Assets	<u>12,922</u>
Total Assets	<u>\$ 18,648,132</u>
Liabilities	
Current Liabilities	\$ 1,470,507
Other Liabilities:	
Accrued retirement insurance	592,352
Note payable – BankIowa	436,409
Electric revenue project note payable	5,402,222
Less: Current portion of long-term debt	(389,912)
Total Other Liabilities	<u>6,041,071</u>
Total Liabilities	7,511,578
Net Assets	<u>11,136,554</u>
Total Liabilities and Net Assets	<u>\$ 18,648,132</u>

Revenues, Expenses and Changes in Net Assets

Revenues:	
Sales to Customers	7,102,299
Miscellaneous Operating Revenue	126,788
Interest Income	126,821
Miscellaneous Revenue	108,593
Gain on Disposal of Assets	<u>66,075</u>
Total Revenue	<u>7,530,576</u>
Expenses:	
Generation Expenses	3,786,551
Distribution Expenses	407,515
Customer Accounts Expense	100,884
Administration and General Expense	840,585
Cable and Internet Expenses	1,025,913
Depreciation and Amortization	883,066
Benefits to Community and City	339,952
Interest Expense	<u>275,352</u>
Total Expenses	<u>7,659,818</u>
Changes in Net Assets	(129,242)
Net Assets at Beginning of Year	<u>11,265,796</u>
Net Assets at End of Year	<u>\$ 11,136,554</u>

BUDGETARY HIGHLIGHTS

The Utility prepared and adopted the annual budget on December 7, 2006, which designated the amounts necessary for the improvement and maintenance of the Utility. The Utility did not exceed its budgeted expenditures for the year ended December 31, 2006.

DEBT ADMINISTRATION

At December 31, 2006, the Utility had long-term debt in the amount of \$5,838,631. During 2006, the Utility repaid \$282,350 of long-term debt and \$45,533 of short-term debt. The Utility also advanced \$293,000 of long term debt.

INDEPENDENCE LIGHT & POWER
Independence, Iowa
ANALYSIS OF KILOWATT HOURS AND BILLINGS
For the Year Ended December 31, 2006
(unaudited)

	KWH Billed	Amount Billed	Revenue in cents/KWH	% KWH to Total	% Revenues to Total	Number of Accts
Type of Service:						
Residential Service	21,137,640	2,618,431	12.39	34.04%	43.75%	2,604
Security Lights	188,631	18,504	9.81	0.30%	0.31%	
Commercial Service	10,871,727	1,091,402	10.04	17.51%	18.24%	340
Demand Power	26,799,440	1,957,397	7.30	43.16%	32.70%	25
Total to Customers	58,997,438	5,685,733	9.64	95.02%	95.00%	2,969
Municipal Sales:						
Street Lighting	706,128	67,707	9.59	1.14%	1.13%	1
City Bldgs, Parks, Water Pumpin	867,447	86,660	9.99	1.40%	1.45%	27
City Demand Power	1,341,040	93,598	6.98	2.16%	1.56%	3
Plant Lights, Office & Line Shop	177,122	0	0.00	0.29%	0.00%	
Total Municipal	3,091,737	247,965	8.02	4.98%	4.14%	31
Power Cost Adjustment	n/a	51,457	0.08	n/a	0.86%	
TOTALS	62,089,175	5,985,155	9.64	100.00%	100.00%	3,000

Analysis of Energy Generated:

Kilowatt Hours Generated	528,690
Less KWH Consumed by Station	519,574
KWH to Distribution Feeders	9,116
KWH Purchased	65,532,860
Total	65,541,976

Kilowatt Hours Billed and Metered	62,089,175
Line Loss in Kilowatts	3,452,801

Line Loss as a Percent to Total 5.27%

INDEPENDENCE LIGHT & POWER
Independence, Iowa
ENERGY AND REVENUE ACCOUNTING REPORT
For Years Ended December 31, 2006, 2005, 2004, 2003
(unaudited)

	2006		2005		2004		2003	
	KWH	%	KWH	%	KWH	%	KWH	%
1. Total Gross Energy (all sources; % of previous year)	66,061,550	84.2%	78,461,829	103.1%	76,073,684	99.3%	76,632,651	103.5%
2. Purchased Energy (% of line 1)	65,532,860	99.2%	77,176,162	98.4%	74,908,024	98.5%	75,258,775	98.2%
3. Total Gross Energy Generated (line 1 - line 2)	528,690	100.0%	1,285,667	100.0%	1,165,660	100.0%	1,373,876	100.0%
4. Energy Consumed by Station (% of line 3)	519,574	98.3%	553,364	43.0%	552,964	47.4%	529,064	38.5%
5. Total Net Energy Generated	9,116	1.7%	732,303	57.0%	612,696	52.6%	844,812	61.5%
6. Total Net Energy Outgoing Feeders	65,541,976	100.0%	77,908,465	100.0%	75,520,720	100.0%	76,103,587	100.0%
7. Net Distributed Energy (% of line 6)	62,089,175	94.7%	74,144,602	95.2%	72,375,077	95.8%	71,698,348	94.2%
8. Energy Lost in Distribution System (% of line 6)	3,452,801	5.27%	3,763,863	4.83%	3,145,643	4.17%	4,405,239	5.79%
ENERGY CONSUMED BY EACH SERVICE AND PERCENT CHANGE IN CONSUMPTION:								
	KWH	% Change	KWH	% Change	KWH	% Change	KWH	% Change
Residential Service	21,137,640	-1.3%	21,416,788	2.8%	20,841,344	-3.0%	21,484,645	-2.2%
Commercial Service	10,871,727	-4.1%	11,341,155	5.2%	10,785,055	1.0%	10,677,790	1.5%
Demand Power	26,799,440	-29.7%	38,111,460	0.3%	37,993,355	3.4%	36,756,105	8.4%
Security Lights	188,631	0.9%	186,861	-0.3%	187,497	0.2%	187,098	-0.6%
City Bldgs, Parks, Water Pump, Traffic Signals	867,447	-2.2%	887,202	19.8%	740,394	-11.4%	835,814	-10.3%
City Demand Accts: WWTP, Pump Station, Shop	1,341,040	-1.0%	1,355,120	30.3%	1,039,993	12.4%	925,049	-12.6%
Street Lights	706,128	0.1%	705,288	1.6%	694,282	-5.4%	733,536	0.1%
Plant Lights, Office & Line Shop	<u>177,122</u>	25.9%	<u>140,728</u>	51.1%	<u>93,157</u>	-5.2%	<u>98,311</u>	-1.5%
TOTAL	62,089,175	-16.3%	74,144,602	2.4%	72,375,077	0.9%	71,698,348	3.3%
ELECTRIC SALES INCLUDING AVERAGE UNIT REVENUE PER KWH:								
	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents
Residential Service	2,633,633	12.46	2,169,987	10.13	2,026,270	9.72	2,016,907	9.39
Commercial Service	1,099,118	10.11	957,372	8.44	895,725	8.31	883,207	8.27
Demand Power	1,984,296	7.40	2,585,161	6.78	2,502,023	6.59	2,336,191	6.36
Security Lights	18,504	9.81	18,445	9.87	18,004	9.60	17,567	9.39
City Bldgs, Parks, Water Pump, Traffic Signals	87,271	10.06	74,331	8.38	63,482	8.57	68,750	8.23
City Demand Accts: WWTP, Pump Station, Shop	94,627	7.06	89,845	6.63	71,099	6.84	66,031	7.14
Street Lights	<u>67,707</u>	9.59	<u>56,519</u>	8.01	<u>55,819</u>	8.04	<u>58,971</u>	8.04
TOTAL	5,985,156	9.64	5,951,659	8.03	5,632,422	7.78	5,447,623	7.60

INDEPENDENCE LIGHT & POWER
Independence, Iowa
UTILITY STATISTICS AND OPERATING INFORMATION
For Years Ended December 31, 2006, 2005, 2004, 2003
(unaudited)

					2006	2005	2004	2003						
	Gene	Unit	Fuel	KW	KWH	KWH	KWH	KWH						
	No.	Year		Capacity	Generated	Generated	Generated	Generated						
Installed 2000	1	1949	Oil	1,000	15,000	0	3,000	6,000						
	1A	2000	Oil	1,860	41,233	98,626	112,237	97,945						
	2	1949	Oil	1,000	12,000	0	12,000	2,000						
	3A	1996	Oil	1,860	44,000	114,000	96,000	116,000						
	3B	1996	Oil	1,860	44,000	113,000	113,000	105,000						
Removed 1999	4	1939	Oil	0										
Installed 2000	4A	2000	Oil	1,860	41,201	113,894	121,184	133,858						
Installed 2000	4B	2000	Oil	1,860	41,256	118,147	127,239	122,053						
	5	1957	Dual	2,500	59,000	27,000	17,000	81,000						
	6	1964	Dual	3,200	92,000	158,000	87,000	45,000						
	7	1973	Dual	6,250	139,000	543,000	477,000	665,000						
TOTAL CAPACITY & KWH GENERATED				23,250	528,690	1,285,667	1,165,660	1,373,856						
PURCHASED KILOWATT HOURS					65,532,860	77,176,162	74,908,024	75,258,775						
TOTAL KWH					66,061,550	78,461,829	76,073,684	76,632,631						
	Unit	Type	Fuel		Hours	Operating	Hours	Operating	Hours	Operating				
	No.				Operated	Capacity	Operated	Capacity	Operated	Capacity	Operated	Capacity		
	1		Oil		23.25	65%	0	0%	3.75	80%				
	1A		Oil		26.25	84%	68	78%	79	76%				
	2		Oil		20	60%	0	0%	15	80%				
	3A		Oil		28.25	84%	78.75	78%	67.5	76%				
	3B		Oil		28.25	84%	78.5	77%	79.75	76%				
	4		Oil			0%		0%		0%				
	4A		Oil		26.25	84%	79	78%	84.75	77%				
	4B		Oil		26.25	84%	82.58	77%	89.25	77%				
	5		Oil & Gas		37.5	63%	14.5	74%	8.25	82%				
	6		Oil & Gas		38.25	75%	63.75	77%	34.75	78%				
	7		Oil & Gas		26.5	84%	104.5	83%	89.75	85%				
TOTAL PLANT FUEL CONSUMPTION FOR ENERGY GENERATION ONLY	Oil Gas				Fuel Consumed		Fuel Consumed		Fuel Consumed					
					38,695 gal		94,301 gal		84,033 gal					
TOTAL & UNIT COST FOR ENERGY GENERATION ONLY	Oil Gas				Total Fuel Cost	Unit Cost	Total Fuel Cost	Unit Cost	Total Fuel Cost	Unit Cost				
					61,800	1.597	126,757	1.344	87,043	1.036				
0					0	0	0	0	0					
TOTAL UNIT OPERATING COST (omit interest, depreciation & taxes)					Total Cost	Cents/ KWH	Total Cost	Cents/ KWH	Total Cost	Cents/ KWH				
					61,920	11.71	168,006	13.07	87,652	7.52				
Total Fuel Cost for Energy Generated														
Purchased Power Cost					3,327,988	5.08	2,400,308	3.11	2,134,902	2.85				
Generation & Purchased Cost to Feeders					3,675,578	5.61	2,946,014	3.78	2,625,225	3.48				
Generation & Purchased Cost to Consumers					3,675,578	5.92	2,946,014	3.97	2,625,225	3.63				
Distribution Cost to Consumers					346,711	0.56	414,587	0.56	367,045	0.51				
Accounting & Collection Expenses to Consumers					100,884	0.16	96,115	0.13	95,371	0.13				
Office Admin. & General Expenses to Consumers					881,407	1.42	968,654	1.31	660,640	0.91				
Total Delivered Cost to Consumers					5,004,580	8.06	4,425,370	5.97	3,748,282	5.18				
MAXIMUM DEMAND ON PLANT (MOMENTARY)														
Maximum Momentary Demand					15,030 KW		16,560 KW		15,300 KW					
Month, Day & Hour of Occurrence					07/31/06 4:00PM		07/14/05 5:35 PM		07/20/04 4:00 PM					
									08/25/03 4:00 PM					

INDEPENDENCE LIGHT & POWER
Independence, Iowa
(unaudited)

Electric Rate Schedule

Effective May 1, 2006

Residential: Service Charge	\$8.00
All kWh	\$0.1246
Commercial: Service Charge	\$12.00
All kWh	0.1036
Industrial: Service Charge	\$100.00
Demand Charge	\$8.00 per KW
All kWh	\$0.055
An energy cost adjustment is made monthly to the above rates based on the utility's kWh sales and power costs.	

Security Lighting Monthly Rental Fees

100 Watt High Pressure Sodium	6.50
250 Watt High Pressure Sodium	8.50
400 Watt High Pressure Sodium	10.80
400 Watt Metal Halide	8.50

Electric Rate Schedule

Effective April 15, 2003

Residential: Service Charge	\$5.75
All kWh	\$0.089
Commercial: Service Charge	\$8.00
All kWh	0.08
Industrial: Demand Charge	\$6.50 per KW
All kWh	\$0.05
An energy cost adjustment is made monthly to the above rates based on the utility's kWh sales and power costs.	

INDEPENDENCE LIGHT AND POWER
Independence, Iowa

MONTHLY & YEARLY PEAK LOAD IN KILOWATTS
For the Year Ended December 31, 2006
(unaudited)

Date	KW	Time	Day
January 17	11,320	12:50 PM	Tuesday
February 9	11,190	6:15 PM	Thursday
March 6	11,000	6:30 PM	Monday
April 7	8,440	8:00 AM	Friday
May 30	10,530	12:10 PM	Tuesday
June 30	11,550	4:30 PM	Friday
July 31	15,030	4:00 PM	Monday
August 1	12,670	3:30 PM	Tuesday
September 8	9,480	2:30 PM	Friday
October 3	9,520	2:45 PM	Tuesday
November 30	10,000	6:15 PM	Thursday
December 7	10,360	6:30 PM	Thursday

2006 Peak for the Year

July 31	15,030	4:00 PM
---------	--------	---------

Comparison

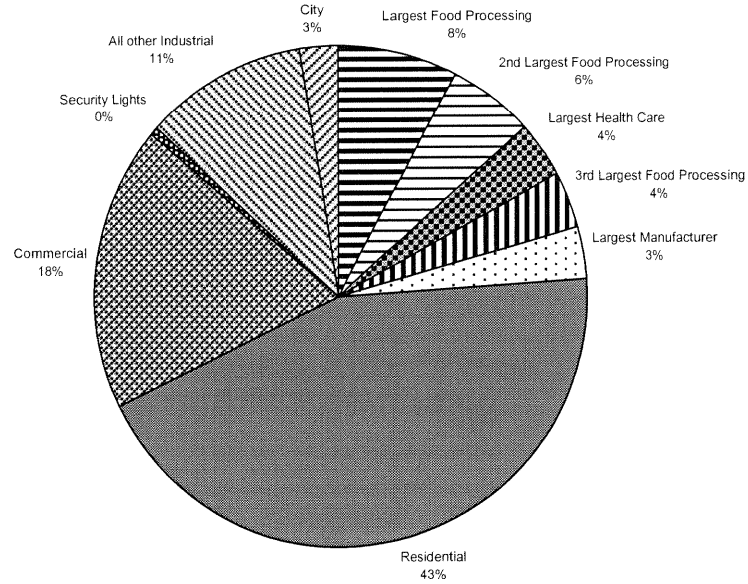
2005 Peak	16,580
2004 Peak	15,500
2003 Peak	17,000
2002 Peak	15,500
2001 Peak	16,310
2000 Peak	16,030
1999 Peak	16,310
1998 Peak	13,836
1997 Peak	13,950
1996 Peak	14,000
1995 Peak	15,800
1994 Peak	12,500
1993 Peak	12,600
1992 Peak	10,500

INDEPENDENCE LIGHT & POWER**Independence, Iowa****TEN LARGEST INDUSTRIAL CUSTOMERS****December 31, 2006****(unaudited)**

Ranking:	Customer	KWh Metered	Revenue	% of Total
		At Industrial Rate		Revenue
1	Food Processing	6,507,480	\$467,809	8.6%
2	Food Processing	4,235,120	\$330,986	6.1%
3	Health Care	2,958,481	\$218,501	4.0%
4	Food Processing	3,144,360	\$217,729	4.0%
5	Manufacturing	2,683,360	\$192,810	3.5%
6	Manufacturing	1,739,200	\$127,579	2.3%
7	Education	1,250,520	\$109,804	2.0%
8	Government	1,248,664	\$94,627	1.7%
9	Retail	671,000	\$50,662	0.9%
10	Retail	621,440	\$48,485	0.9%
Total of Ten Largest		25,059,625	\$1,858,992	34.1%

INDEPENDENCE LIGHT & POWER
Independence, Iowa

2006 REVENUE BREAKDOWN
Shows 5 Largest Customers Individually
(unaudited)



	Customer	KWh	Revenue	% of Total Revenue
1	Largest Food Processing	6,507,480	\$467,809	7.82%
2	2nd Largest Food Processing	4,235,120	\$330,986	5.53%
3	Largest Health Care	2,958,481	\$218,501	3.65%
4	3rd Largest Food Processing	3,144,360	\$217,729	3.64%
5	Largest Manufacturer	2,683,360	\$192,810	3.22%
All Others	Residential	21,137,640	\$2,633,633	44.00%
	Commercial	10,871,727	\$1,099,118	18.36%
	Security Lights	188,631	\$18,504	0.31%
	All other Industrial	8,611,679	\$651,088	10.88%
	City	1,573,575	\$154,978	2.59%
	Total Sales	61,912,053	\$5,985,155	100.00%

BACKGROUND OF INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS

In 1893, the citizens of Independence voted by a 572 majority to build a municipal light plant. This building was located where Veterans Park is today. The flood of 1947 caused damage to the plant so they decided to move to a better location. In 1948, construction began on a new building at the present site. At that time the Mayor and City Council governed the Light Plant. In 1961 the City voted to have the Light Plant governed by a board of trustees.

During the construction of this building, two new Superior 1000kw generators were installed. These generators are still in use today. After these generators became operational they moved two Worthington generators from the old plant. These units have since been removed to make room for new Caterpillar generators.

As the City grew the demand for electricity also grew, so additional generation had to be added. In 1957, a twenty-foot addition was added to the west side of the building to make room for the installation of a 2500kw Worthington generator. In 1964, another addition was added to the west allowing space for two additional generators. At this time a 3200kw Worthington generator was installed. In 1973, a 6250kw Worthington generator was installed and a new Control Room was added to the south side of the building.

In 1975, the interconnection with Interstate Power Company was installed. This meant that the plant went to a standby status and power was purchased from Interstate Power Company. Power was generated during times of high usage and during emergencies. Presently we are still in a standby status and from May 1996 until May 2006, we have been purchasing power from Dairyland Power Company. On April 20, 2006 a contract was signed with Wisconsin Public Power Inc. (WPPI) to purchase power beginning May 1, 2006 for a period of 30 years.

In October of 1979 the Line Shop moved to their present location. In 1987, we began to the electrical distribution system from 2400 volts to 12,470 volts. This upgrade was completed in January of 2002. In order to better serve our customers, a drive-thru pay window was installed in 1992 and the billing functions were moved from City Hall to the plant.

In 1995, two 1860kw Caterpillar generators were installed in place of the 1935 generators. In March of 1999, the 1939 generator was also removed to make room for additional Caterpillar generators. In May of 2000 three 1860kw Caterpillar generators came on line. Currently the total of generating capacity of the plant is 23,250kw.

In November of 1997 by a majority vote, the citizens of Independence approved the formation of a telecommunications company. A new administration building was built across the street from the plant and in May of 2000 the office and management personnel moved in. The vacated office area at the plant was remodeled for the new telecommunications equipment. Cable TV became operational in December of 2000 and internet on May of 2001. In 2006, telephone service, or Voice Over Internet Protocol (VOIP) was added as an additional service.

In June of 2003 work began on the site of the west substation. This substation was installed to handle the continued growth west of the river. It will also be used to serve the entire town when east substation needs to be taken out of service. We are continuing to stay abreast with our customers' needs and keeping a watchful eye to the future. Our goal is the same as our founders, to deliver low cost dependable power to all citizens well into the future.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Darrel Wenzel, General Manager, P.O. Box 754, Independence, IA 50644.

Basic Financial Statements

Independence Light and Power, Telecommunications

Statement of Net Assets

December 31, 2006 and 2005

LIABILITIES AND NET ASSETS:	<u>2006</u>	<u>2005</u>
Current Liabilities:		
Accounts Payable	\$ 464,503	340,995
Accrued wages payable	12,808	13,555
Accrued vacation and sick pay	588,789	585,445
Other accrued expenses	14,495	35,024
Current portion of long term debt	<u>389,912</u>	<u>256,656</u>
Total Current Liabilities	<u>1,470,507</u>	<u>1,231,675</u>
Other Liabilities:		
Accrued retirement insurance	592,352	592,352
Note payable - BankIowa	436,409	188,943
Electric revenue project note payable	5,402,222	5,684,572
Less: Current portion of long-term debt shown above	<u>(389,912)</u>	<u>(256,656)</u>
Total Other Liabilities	<u>6,041,071</u>	<u>6,209,211</u>
Net Assets:		
Investment in capital assets, net of related debt	4,534,435	4,182,035
Unrestricted	<u>6,602,119</u>	<u>7,083,761</u>
Total Net Assets	<u>\$ 11,136,554</u>	<u>11,265,796</u>

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Sales to customers	\$ 7,102,299	7,119,612
Miscellaneous operating revenue	<u>126,788</u>	<u>41,955</u>
Total Operating Revenue	<u>7,229,087</u>	<u>7,161,567</u>
Operating expenses:		
Generation expenses	3,786,551	2,950,350
Distribution expenses	407,515	397,331
Customer account expenses	100,884	96,115
Administration and general expenses	840,585	864,357
Cable and internet expenses	1,025,913	841,647
Depreciation and amortization expenses	883,066	947,978
Benefits to community and city	<u>339,952</u>	<u>192,605</u>
Total Operating Expenses	<u>7,384,466</u>	<u>6,290,383</u>
Operating Income	(155,379)	871,184
Non-Operating Revenues (Expenses):		
Interest income	126,821	65,735
Interest expense	(275,352)	(259,383)
Gain (loss) on disposal of assets	66,075	11
Other revenue	<u>108,593</u>	<u>12,826</u>
Total Non-Operating Revenues (Expenses)	<u>26,137</u>	<u>(180,811)</u>
Changes in Net Assets	(129,242)	690,373
Net Assets, beginning of year	<u>11,265,796</u>	<u>10,575,423</u>
Net Assets, end of year	<u><u>\$ 11,136,554</u></u>	<u><u>11,265,796</u></u>

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Cash Flows

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Operating income	\$ (155,379)	864,910
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	883,066	947,978
Non-operating revenue	108,593	12,826
(Increase) decrease in:		
Accounts receivable	(76,915)	(48,238)
Unbilled revenues receivable	157,237	(10,883)
Interest receivable	(6,802)	709
Inventory	(45,887)	(80,295)
Prepaid expenses	25,208	18,916
Increase (decrease) in:		
Accounts payable	123,508	(26,867)
Accrued wages payable	(747)	1,726
Accrued vacation and sick pay	3,344	85,445
Other accrued expenses	(20,530)	(73,437)
Accrued retirement insurance	-	41,772
	<u>994,696</u>	<u>1,734,562</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Additions to capital assets	(709,603)	(731,823)
Net proceeds on disposal of assets	91,920	11
Principal paid on long-term debt	(327,884)	(4,304,670)
Principal paid on short-term debt	-	(1,730,081)
Interest expense	(275,352)	(259,383)
Borrowings of long-term debt	293,000	5,800,000
Borrowings of short-term debt	-	182,000
	<u>(927,919)</u>	<u>(1,043,946)</u>
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Purchase of certificates of deposit	(2,400,000)	(2,500,000)
Redemption of certificates of deposit	2,400,000	2,200,000
Collection of long-term note receivable	13,800	13,800
Interest income	126,821	65,735
	<u>140,621</u>	<u>(220,465)</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	207,398	470,151
Beginning cash and cash equivalents	<u>2,076,267</u>	<u>1,606,116</u>
Ending cash and cash equivalents	<u>\$ 2,283,665</u>	<u>2,076,267</u>

See notes to financial statements

Independence Light and Power, Telecommunications

Notes to Financial Statements

December 31, 2006

(1) Summary of Significant Accounting Policies

The Independence Light and Power, Telecommunications is a subdivision of the City of Independence, which is a political subdivision of the State of Iowa. It is considered a Component unit of the City under Governmental Accounting Standards Board Statement Number Fourteen. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis and the Utility is governed by a separate Board of Trustees. Independence Light and Power, Telecommunications is a public utility providing electrical, cable, internet, and telephone services to the citizens of the City of Independence, Iowa.

The Utility's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For reporting purposes, Independence Light and Power, Telecommunications has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board have set forth criteria to be considered in determining financial authority. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the Utility to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. The financial statements are the Enterprise Fund of Independence Light and Power, Telecommunications which is a component unit of the City of Independence.

Independence Telecommunications Utility is legally separate from the Electric Utility, but is financially accountable to the Electric Utility, or whose relationship with the Electric Utility is such that exclusion would cause the Electric Utility's financial statements to be misleading or incomplete. The Telecommunications Utility is governed by the Electric Utility's five-member Board appointed by the City Council and the Telecommunications Utility's Operating budget is subject to the approval of the City Council and the Electric Utility.

B. Basis of Presentation:

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of Net Assets displays the Utility's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Utility's policy to use unrestricted resources first.

C. Measurement Focus and Basis of Accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and

assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets:

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents:

The Utility considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2006, cash consisted of checking accounts, savings accounts, and certificates of deposit.

Cash and cash equivalents for cash flows statements purposes are as follows:

	<u>2006</u>
Cash	\$ 799,820
Board designated funds	<u>3,083,845</u>
Total Cash	3,883,665
Less: Certificates of deposit – term longer than three months	<u>(1,600,000)</u>
Cash and Cash equivalents	<u>2,283,665</u>

Accounts Receivable and Unbilled Revenue:

Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual customer balances. Unbilled revenue is for the service consumed between periodic scheduled billing dates and is estimated and recognized as revenue in the period in which the service is provided.

Inventories:

The inventories are valued using average cost.

Board Designated Funds:

Board Designated Funds consist primarily of funds designated by the Board of Trustees for the improvement, replacement and expansion of capital assets, and future health insurance payments for retired employees. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Capital Assets:

Property and equipment were recorded in 1954 at their appraised value with all subsequent additions recorded at cost. Normal maintenance and repairs are expenses, and major renewals and betterments are capitalized. If items of property are sold, retired, or otherwise disposed of, they are removed from the

asset and accumulated depreciation accounts, and any gain or losses thereon are reflected in the Statements of Revenues and Expenses. Depreciation is computed using the straight-line method.

Investments:

At December 31, 2006, investments are stated at the lower of aggregate cost or market.

Revenue:

Billings to customers are based on meter readings at stated rates, and are recorded as revenue in the corresponding meter-reading period.

Income Taxes:

Independence Light and Power, Telecommunications is a subdivision of the State of Iowa and exempt from federal and state income taxes.

F. Intangible Assets:

Intangible assets consist of start-up costs recorded at \$543,541 less amortization. At December 31, 2006 these start-up costs were fully amortized.

(2) Cash and Investments

Independence Light and Power, Telecommunications' deposits in banks at December 31, 2006 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The carrying value and the approximate market value of the Utility's investments at December 31, 2006, are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Investment in Industrial Park Site	\$ 12,922	\$12,922

During 1988, Independence Light and Power, Telecommunications purchased 38.99 acres of land in Independence, Iowa. The utility sold 1.538 acres in 1988, 6.805 acres in 1991, 3.318 acres in 1994, 7.513 acres in 1998, and 15.017 acres in 2006 resulting in a gain on sale of investment of \$1,876, \$3,754, \$1,789, \$2,302, and \$66,075, respectively. At December 31, 2006, the remaining 4.799 acres were held for resale.

(3) Accounts Receivable

As of December 31, 2006, this account consisted of the following:

Accounts Receivable	\$ 696,147
Less: Allowance for doubtful accounts	(39,019)
Balance	<u>\$ 657,128</u>

(4) Unbilled Revenues Receivable

Unbilled revenues receivable consist of electric meter usage that has not been read or billed by the Utility. At December 31, 2006, this amount was \$184,298.

(5) Inventories

At December 31, 2006, inventories consisted of the following:

Fuel oil	\$ 124,340
Lube oil	440
Distribution	151,082
Generation	108,056
Cable and internet supplies	<u>115,385</u>
	<u>\$ 499,303</u>

(6) Reserved Funds

The reserved funds are amounts the Board has restricted for specific purposes.

Capital Improvement Fund – At the October 20, 1994 meeting, the Board approved the combining of the Improvement Fund and the Future Construction Fund and called it the Capital Improvement Funds. This fund is to be used for new construction projects and improvements. Monthly transfers to this fund are to be \$15,000. At the February 20, 1997 board meeting, the policy was changed to have \$20,000 transferred to this fund each month. At the February 24, 2005 board meeting, the policy was changed to have \$40,000 transferred to this fund each month. At the February 23, 2006 board meeting, the policy changed to have \$20,000 transferred to this fund each month. During 2006, \$260,000 was transferred into the fund.

Retirement and Severance Fund – The Board of Trustees has reserved this to pay for future health insurance coverage for retired employees. It also helps fund the accrued vacation and sick leave for current employees. This fund is to equal the combined retirement and severance liabilities.

Self Insurance Fund – The Board of Trustees has reserved the amounts in this fund to replace the distribution system that might be destroyed by a natural disaster. This reduces the amount of insurance premium that would be incurred if an outside insurer were paid for this coverage. Prior to October 1994, this fund was funded with all interest income received. At the October 20, 1994 board meeting, the policy was changed to have \$2,500 transferred to this fund each month. At the July 25, 1996 board meeting, the policy was changed retroactive to June 1996 to have \$15,000 transferred to this fund each month. In December 1996, the Board of Trustees approved an additional

transfer of \$25,000 to the fund. At the February 20, 1997 board meeting, the policy was changed to have \$20,000 transferred to this fund each month. At the February 24, 2005 board meeting, the board approved a transfer of \$181,596 to this fund from the Retirement and Severance Fund, and approved capping this fund at \$1,000,000. During 2006, no amounts were transferred into the fund.

(7) Capital Assets

Capital Assets Not Being Depreciated:

Land	\$ 242,531
Construction in Progress	<u>35,991</u>
Total Capital Assets Not Being Depreciated	<u>\$ 278,522</u>

Capital Assets Being Depreciated:

Telecommunications Outside Plant	\$ 2,247,246
Buildings and Improvements	103,559
Generation in Service	8,717,045
Distribution in Service	8,102,059
Office and Office Equipment	959,272
Small Tools	55,946
Transportation	763,781
Cable and Internet Equipment	<u>2,926,552</u>
Total Capital Assets Being Depreciated	23,875,460
Less Accumulated Depreciation	(<u>10,798,756</u>)
Net Capital Assets Being Depreciated	<u>13,076,704</u>
Net Capital Assets	<u>\$ 13,355,226</u>

(8) Long-Term Note Receivable – City of Independence

During 1999, Independence Light and Power, Telecommunications loaned \$94,626 to the City of Independence for the purpose of purchasing air packs for use by the Independence Fire Department. This loan is to carry no interest as long as it is current, and is to be paid back at a rate of \$13,800 of the principal annually. Should the loan become in arrears, the loan will carry interest commensurate with that rate charged by local banks on outstanding municipal warrants. The balance of the note at December 31, 2006 is \$11,826.

In 2003, the City of Independence incurred budget cuts and requested that there be no current portion payable, therefore extending the note for an additional year. This was approved by the board of trustees.

(9) Accrued Vacation and Sick Pay

At December 31, 2006, Independence Light and Power, Telecommunications had accrued vacation payable of \$63,025. An employee may carry forward only five days of vacation from one vacation year to the next. An employee earns their vacation days on their anniversary date.

All full-time employees accrue sick leave at a rate of 2 days per month up to a maximum of two-hundred-eighty (280) days. Upon retirement, medical disability, or death, an employee will be paid up to fifty percent of 240 days of his or her accumulated sick leave. At December 31, 2006, the accumulated sick leave was \$525,764.

(10) Accrued Retirement Insurance

During 1986, the Board of Trustees voted to recognize the probable liability of retirement health insurance coverage by appropriating funds for this purpose, based on the life expectancy of each retiree. The amount of probable liability was determined using life expectancy tables and a variable health care inflation assumption and those amounts were placed in a long-term investment. The Utility will recognize the liability incurred and accordingly restrict the equivalent amount of cash. The criteria for determining eligibility includes years of service and employee age. The benefit is available to the spouse for up to three months after the death of the retiree. At December 31, 2006, Independence Light and Power, Telecommunications had accrued retirement insurance of \$592,352.

At a July 2004 Board of Trustees meeting, the Utility adopted a resolution stating that future retirees would not be provided retirement health insurance coverage. Current retirees and spouse will continue to be covered under the plan.

At December 31, 2006, Independence Light and Power, Telecommunications covered 11 retired employees.

(11) Pension and Retirement Benefits

Independence Light and Power, Telecommunications contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and Independence Light and Power, Telecommunications is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The contributions paid to IPERS by Independence Light and Power, Telecommunications for the year ended December 31, 2006 and 2005 were \$62,753 and \$61,915, equal to the required contributions for each year.

(12) Long-Term Debt

On December 29, 2006, the Utility signed a loan agreement with BankIowa. The loan is payable from the revenue from the operation of the Utility. The loan was for \$436,409. Principal and interest payments are payable for 59 months in the amount of \$8,700 beginning on February 1, 2007, with a final installment of all remaining principal and interest due at maturity on December 1, 2011. The information is as follows:

<u>Balance</u>	<u>Interest Rate</u>	<u>Due Date</u>
\$436,409	6.5%	December 1, 2011

The Utility issued an Electric Revenue Improvement and Refunding Note dated August 1, 2005. The balance at December 31, 2006 was \$5,402,222. Monthly payments are \$44,370 through August 1, 2020. On August 1 in each of the years 2012 and 2019, the rate will be adjusted to two thirds (67%) of the 7-year fixed advance rate plus 2%. The fixed advance rate is published by the Federal Home Loan Bank, Des Moines, Iowa. Currently, the note bears interest at 4.50% per annum.

The electric revenue note is a revenue note issued under the provisions of Chapter 384 of the Code of Iowa and, as such, the principal and interest are payable from the revenue from operations of the Utility. The details of the Utility's indebtedness are as follows:

<u>Year Ending December, 31</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	4.50	294,212	238,223	532,435
2008	4.50	307,652	224,783	532,435
2009	4.50	321,914	210,521	532,435
2010	4.50	336,650	195,785	532,435
2011	4.50	352,116	180,320	532,436
2012 – 2020	4.50	3,789,678	756,600	4,546,278
Total		\$ 5,402,222	1,806,232	7,208,454

The Utility reserves the right to prepay principal on this note in whole or in part at any time prior to and in any order of maturity on terms of par and accrued interest.

(13) Related Party Transactions

Independence Light and Power, Telecommunications provides electrical service to the City of Independence. During the year ended December 31, 2006, the charges for this electrical service were \$270,927. In addition, the City paid \$10,000 for utility billings and collections.

During 2006, Independence Light & Power, Telecommunications donated \$156,000 to the City of Independence.

The Utility has agreed to pay the City of Independence \$150,000 per year for a five year period for the purpose of economic development. The annual payments are due January 31st. The first payment was paid January 31, 2006.

(14) Lease Agreements

Independence Light and Power, Telecommunications has a Joint Use Contract with Qwest Corporation. Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the

number of Joint Use Poles owned by Qwest Corporation) was 413 poles. During the year ended December 31, 2006, Independence Light and Power, Telecommunications received \$6,934.

The Utility also has a Joint Use Contract with Mediacom. Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the number of Joint Use Poles owned by Mediacom) was 1,597 poles. During the year ended December 31, 2006, Independence Light and Power, Telecommunications received \$26,814.

(15) Commitments

On March 2, 2006, the Utility signed a letter of intent to purchase power from Wisconsin Public Power, Inc. (WPPI). The letter of intent states the contract period will be from May 1, 2006 through December 31, 2037 with an average wholesale cost of power projected to be \$58.28/MWh for 2006. An official contract for service was approved and signed at the April 20, 2006 meeting of the board of directors.

(16) Risk Management

Independence Light and Power, Telecommunications is exposed to various risks of loss related to torts, theft, damages, and natural disaster. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage for the past three years.

Required Supplementary Information

Independence Light and Power, Telecommunications

Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets
Budget to Actual (Cash Basis)

December 31, 2006

	Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Final to Actual Cash Basis Variance
Total Revenues	\$ 7,530,576	752,754	8,283,330	9,786,917	(1,503,587)
Total Expenditures	(7,659,818)	(1,065,999)	(8,725,817)	(10,058,727)	1,332,910
Net	(129,242)	(313,245)	(442,487)	(271,810)	(170,677)
Balance, Beginning of year	11,265,796	(10,135,183)	1,130,613	2,948,840	1,818,227
Balance, End of year	<u>\$ 11,136,554</u>	<u>(10,448,428)</u>	<u>688,126</u>	<u>2,677,030</u>	<u>1,988,904</u>

See accompanying independent auditor's report.

Independence Light and Power, Telecommunications

Notes to Required Supplementary Information – Budgetary Reporting

December 31, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for their financial statements.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. During the year there was one amendment to the budget. The amendment increased budgeted expenditures by \$272,635. Disbursements did not exceed amounts budgeted at December 31, 2006.

Other Supplementary Information

Independence Light and Power, Telecommunications

Treasurer's Balance

December 31, 2006

	Checking and Savings Accounts	Time Deposits	Total	Maximum Authorized Deposit
Security State Bank Independence, Iowa	\$ 436,524	-	436,524	4,000,000
Cash on Hand			-	
Deposits in transit			-	
Outstanding checks			-	
Balance			<u>436,524</u>	
BankIowa Independence, Iowa	\$ 1,144,668	2,400,000	3,544,668	4,000,000
Cash on Hand			800	
Deposits in transit				
Outstanding checks			<u>(98,327)</u>	
Balance			<u>3,447,141</u>	
Total			<u><u>\$ 3,883,665</u></u>	

See accompanying independent auditor's report.

Independence Light and Power, Telecommunication

Schedule of Operating Expenses

Years Ended December 31, 2006 and 2005

	2006	2005
Generation Expenses:		
Purchased power	\$ 3,327,988	2,400,308
Fuel oil expense	58,940	128,573
Natural gas - engines	120	35
Natural gas - boiler	30,835	39,398
Operating expenses	14,560	40,592
Generating vacation and sick leave	40,723	47,434
Supervision	106,422	78,533
Maintenance of generators and equipment	94,827	83,605
Miscellaneous generation expenses	112,136	131,872
	<u>3,786,551</u>	<u>2,950,350</u>
Distribution Expenses:		
Operation and maintenance of overhead	103,830	88,811
Operation and maintenance of underground	36,140	40,450
Operation and maintenance of transformers	289	5,412
Operation and maintenance of street lights	10,558	12,904
Operation and maintenance of security lights	3,105	1,931
Operation and maintenance of meters	19,464	14,815
Operation and maintenance of customer services	28,052	28,950
Operation and maintenance of traffic signals	2,546	2,737
Operation and maintenance of substation	1,796	530
Distribution supervision	75,219	71,104
General distribution labor	26,399	27,637
Distribution vacation and sick leave	57,457	50,393
Miscellaneous distribution expenses	42,660	51,657
	<u>407,515</u>	<u>397,331</u>
Customer Accounts Expense:		
Customer records and collections	75,911	71,612
Bad debt expense	5,798	6,269
Meter reading	19,175	18,234
	<u>100,884</u>	<u>96,115</u>

Administration and General Expenses:

Office salaries	174,228	161,200
Office vacation and sick leave	45,518	44,862
Property insurance	73,559	60,747
Outside services	79,375	77,650
Office supplies, telephone, and postage	18,489	15,470
Employer FICA	65,364	66,023
Employer IPERS	50,839	50,798
Maintenance - general	4,900	-
Property taxes	508	1,035
Miscellaneous expense	18,456	32,656
Uniforms	6,177	8,756
Safety expenses and equipment	13,093	13,228
Employee benefits	203,131	246,901
Energy efficiency programs	36,250	20,873
Marketing	12,719	19,283
Transportation	37,979	44,875
	<u>840,585</u>	<u>864,357</u>
 Cable and internet expenses	 <u>1,025,913</u>	 <u>841,647</u>
 Depreciation and amortization expenses	 <u>883,066</u>	 <u>947,978</u>
 Benefits to Community and City:		
Cash donations to city	306,000	156,000
Labor benefits to city	5,979	10,270
Community benefits	27,973	26,335
	<u>339,952</u>	<u>192,605</u>
 Total Operating Expenses	 <u><u>\$ 7,384,466</u></u>	 <u><u>6,290,383</u></u>

See accompanying independent auditor's report.

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.

14 East Charles St, PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

To the Board of Trustees
Independence Light and Power, Telecommunications
Independence, Iowa 50644

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the Independence Light and Power, Telecommunications, Independence, Iowa, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated March 22, 2007. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Independence Light and Power, Telecommunications' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Independence Light and Power, Telecommunications' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independence Light and Power, Telecommunications' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial

statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Independence Light and Power, Telecommunications and other parties to whom the Independence Light and Power, Telecommunications may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Independence Light and Power, Telecommunications during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C., C.P.A.'S

March 22, 2007

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2006

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Official Depositories – A resolution naming official depositories has been approved by the Utility Board.
- III-B-06 Certified Budget – Disbursements during the year ended December 31, 2006 did not exceed the amounts budgeted in the business type activities functions.
- III-C-06 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-06 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- III-E-06 Business Transactions – There were no business transactions between the Utility and Utility officials or employees.
- III-F-06 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- III-G-06 Board of Trustees Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-H-06 Revenue Notes – We noted no instances of noncompliance with the Electric Revenue Note provisions.
- III-I-06 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.
- III-J-06 Telecommunication Services – We noted no instances of noncompliance with Chapter 388.10 of the code of Iowa.

Independence Light and Power, Telecommunications

Staff

This audit was performed by:

Gene L. Fuelling, CPA, Partner
Donald A. Snitker, CPA, Partner
Gina E. Trimble, CPA, Senior Auditor